

# 1997 Iowa Legislative Summaries

## with emphasis on tax and finance

*Click on any bill number  
to view the summary*

BILL	DESCRIPTION	PAGE
<a href="#">HF 4</a>	City Assessor not Required	3
<a href="#">HF 126</a>	Expanded Industrial Machinery and Equipment Exemption	4
<a href="#">HF 212</a>	Racetracks Subject to Property Tax	5
<a href="#">HF 218</a>	Notice of Appraisal	6
<a href="#">HF 266-A</a>	Unmarked Vehicles	7
<a href="#">HF 266-B</a>	Franchise Tax Appropriation	8
<a href="#">HF 266-C</a>	Independent Contractors	9
<a href="#">HF 266-D</a>	Offset Program	10
<a href="#">HF 266-E</a>	Performance Based Procurement	11
<a href="#">HF 266-F</a>	Unconstitutionally Withheld Tax Benefits	12
<a href="#">HF 266-G</a>	Resident Shareholders of S Corporation Anti-Churning Provision	13
<a href="#">HF 266-H</a>	Partnerships Taxed as Corporations	14
<a href="#">HF 266-I</a>	Exempt Agricultural Production Includes Aquaculture	15
<a href="#">HF 266-J</a>	Sales of Prepaid Authorization Numbers and Calling Cards Are Taxable	16
<a href="#">HF 266-K</a>	Non-Profit, Private Museums	17
<a href="#">HF 266-L</a>	Liberalized Purchase for Lease Exemption	18
<a href="#">HF 266-M</a>	Direct Payment of Tax to the Department by Purchasers and Users	19
<a href="#">HF 266-N</a>	Subpoena of Tax Returns and Information /Department of Public Safety	20
<a href="#">HF 266-O</a>	Retailer Maintaining a Place of Business/Use Tax	21
<a href="#">HF 266-P</a>	Mental Health Property Tax Relief Fund	22
<a href="#">HF 266-Q</a>	Military Service Property Tax Exemption	23
<a href="#">HF 266-R</a>	Machinery and Equipment Property Tax Replacement Claims	24
<a href="#">HF 266-S</a>	Assessor Continuing Education	25
<a href="#">HF 266-T</a>	Deputy Assessor Continuing Education	26
<a href="#">HF 266-U</a>	Refunds for Undyed Special Fuel Used in Watercraft	27
<a href="#">HF 266-V</a>	Interest on Motor Fuel Tax Refunds	28
<a href="#">HF 266-W</a>	Non-Pro Rata Division of Trust	29
<a href="#">HF 266-X</a>	Racetracks Locally Assessed	30
<a href="#">HF 306-A</a>	Apportionment for Resident Shareholders of S Corporations	31
<a href="#">HF 306-B</a>	S Corporation Apportionment Refund	32

BILL	DESCRIPTION	PAGE
<a href="#"><u>HF 354</u></a>	Nexus Limitation Foreign Corporations	33
<a href="#"><u>HF 355</u></a>	Exemption of Active Duty Pay of National Guard Personnel and Military Reserve Personnel Related to Peacekeeping in Bosnia	34
<a href="#"><u>HF 388</u></a>	Ten Percent Reduction in Income Tax Rates	35
<a href="#"><u>HF 495</u></a>	Machinery and Equipment Property Tax Phase-out/Exemption	36
<a href="#"><u>HF 645</u></a>	Delinquent/Suspended Property Taxes	37
<a href="#"><u>HF 704</u></a>	D. O. T./Construction Contractors – No Need to Provide Documents Supporting Refund Claims	38
<a href="#"><u>HF 722</u></a>	Iowa Capital Investment Tax Credit	39
<a href="#"><u>HF 724-A</u></a>	Enterprise Zones	40
<a href="#"><u>HF 724-B</u></a>	Enterprise Zones Property Tax Exemption	41
<a href="#"><u>HF 726-A</u></a>	Livestock Production Credit Refund Revisions – Cow-Calf Credit Changes	42
<a href="#"><u>HF 726-B</u></a>	Property Tax Credit and Exemption Funding	43
<a href="#"><u>HF 729</u></a>	Local Option Tax	44
<a href="#"><u>HF 732</u></a>	Residential Development Property Tax Exemption	45
<a href="#"><u>SF 30</u></a>	Sales/Use Tax Exemption for Agricultural Adjuvants, Surfactants and Certain Other Chemicals	46
<a href="#"><u>SF 35</u></a>	Elimination of Inheritance Tax on Shares Received by Certain Individuals	47
<a href="#"><u>SF 83</u></a>	Property Tax on Life Estates	48
<a href="#"><u>SF 129-A</u></a>	Update of References to Internal Revenue Code	49
<a href="#"><u>SF 129-B</u></a>	Mortgage Interest Credit Deduction	50
<a href="#"><u>SF 129-C</u></a>	Federal Provisions Adopted for Iowa Income Tax Purposes	51
<a href="#"><u>SF 222</u></a>	Motor Vehicle Lease Tax Corrective Legislation	53
<a href="#"><u>SF 238</u></a>	Disposition of Safe Deposit Box Contents	54
<a href="#"><u>SF 241</u></a>	Uniform Transfer on Death Security Registration Act	55
<a href="#"><u>SF 542</u></a>	Reinstatement of the Income Tax Checkoff for Domestic Abuse Services	56
<a href="#"><u>SF 545</u></a>	Driver's License/Debt Collection Pilot Project	57
<a href="#"><u>SF 553</u></a>	Banks as S Corporations	58

# **CITY ASSESSOR NOT REQUIRED**

## **PRIOR LAW**

Every city having more than 125,000 population was required to have a city assessor. Cities having a population of 10,000 or more had the option of having a city assessor.

Cities with a population of 75,000 or more had the option of establishing a city board of review to hear property assessment appeals. The city was required to pay the expenses of the city board of review.

## **NEW PROVISIONS**

A city having a population of 10,000 or more still has the option of having a city assessor. Cities with a population in excess of 125,000 are not required to have a city assessor and may abolish the office if they have one.

A city with a population in excess of 125,000 may elect to have a city board of review or a 10 member county board of review. If the city elects to have a city board of review, the expenses of the board are to be paid by the county. If a 10 member county board of review is selected, it may be increased up to 14 members if there are a large number of protests.

## **SECTIONS AMENDED**

Section 1 of House File 4 amends section 441.1; section 2 amends section 441.31, subsection 2, and section 3 amends section 441.31, subsection 3.

## **EFFECTIVE DATE**

July 1, 1997.

97 HF 4

# **EXPANDED INDUSTRIAL MACHINERY AND EQUIPMENT EXEMPTION**

## **PRIOR LAW**

Sales of industrial machinery, equipment and computers including replacement parts, and fuel and electricity used directly and primarily in processing by a manufacturer were exempt from tax. Sales of replacement parts were exempt only if the parts were depreciable for federal and state income tax purposes. Sales of materials used by a manufacturer to construct machinery for the manufacturer's own use rather than for subsequent resale were not exempt. Sales of machinery and equipment used to maintain conditions necessary to process a product or to maintain the conditions necessary for machinery used in processing to operate were not exempt; neither were sales of equipment used in quality control. "Processing" of a product was generally limited to those aspects of manufacturing which involved the transformation of raw material into a finished product. Beginning, intermediate, and ending steps of manufacturing which involved only movement of a product or holding the product in its existing state were not usually a part of processing. The word "manufacturer" was not defined to include a "contract manufacturer" who processes raw material owned by other parties into finished goods.

## **NEW PROVISION**

Sales of industrial machinery, equipment and computers including replacement parts, and fuel and electricity used directly and primarily in processing by a manufacturer remain exempt from tax. Further, fuel used in creating heat, power, or steam, or for generating electrical current, are exempt from tax. However, sales of "replacement parts" are now exempt, with no requirement that those parts be depreciable for income tax purposes. Sales of materials used to construct industrial machinery or equipment for use by a manufacturer rather than for subsequent resale by the manufacturer are exempt from tax. Sales of machinery and equipment used to maintain conditions necessary to process a product or to maintain the conditions necessary for machinery used in processing to operate or used in quality control are exempt from tax. Industrial machinery, equipment and computers are no longer required to be real property within the scope of section 427A.1, subsection 1, paragraphs "e" or "j". The definition of "processing" is expanded to include nearly all aspects of manufacturing beginning with the manufacturer's receipt or production of the raw material and ending with the manufacturer's delivery for shipment or transfer of the finished product and including intermediate steps of manufacturing which involve the movement of the product or holding the product in an existing state. Electricity used in the expanded areas of "processing" is exempt from tax. The word "manufacturer" is defined to include a contract manufacturer.

## **SECTION AMENDED**

House File 126 amends section 422.45, subsection 27, 1997 Code.

## **EFFECTIVE DATE**

July 1, 1997 for sales and use occurring on and after that date.

# RACETRACKS SUBJECT TO PROPERTY TAX

## PRIOR LAW

Iowa Code section 427.1, subsection 2, exempts from taxation the property owned by a city or county if the property is devoted to a public purpose and not used for profit-making purposes.

## NEW PROVISIONS

Licensed racetracks may be subjected to property taxation regardless of other provisions of law. A taxing authority within the taxing district in which the racetrack is located may pass a resolution imposing the tax. The taxing authority is required to pass the resolution imposing the tax and notify the department of revenue and finance by September 1 preceding the fiscal year in which the taxes are payable. The department is required to assess the racetrack by October 15 and the owner may protest the assessment to the state board of tax review by December 1.<sup>1</sup>

## SECTIONS AMENDED

Section 1 of House File 212 amends section 99D.2, subsection 8, and section 2 amends section 99D.14, subsection 6, by striking the subsection and inserting a new subsection.

## EFFECTIVE DATE

July 1, 1997. Retroactive to January 1, 1997 assessments.

<sup>1</sup> House File 212 was amended by House File 266 to require the local assessor rather than the Department of Revenue and Finance to assess licensed racetracks.

# NOTICE OF APPRAISAL

## **PRIOR LAW**

Required that the notice of appraisal under inheritance tax provisions be served in the same manner as required for the commencement of civil actions or in a manner requested in an application submitted by an appraiser or interested party. The latter was subject to the Court's discretion. In addition, prior law required that the notice and return of service be filed with the clerk of court.

## **NEW PROVISION**

Provides that notice of appraisal for inheritance tax be served by certified mail. The service is deemed complete when the notice is deposited in the mail and postmarked for delivery. This amendment also provides that only the notice and not the return of notice need to be filed with the clerk of court.

## **SECTION AMENDED**

Iowa Code sections 450.28 and 450.29.

## **EFFECTIVE DATE**

July 1, 1997

97 HF 218

# UNMARKED VEHICLES

## **PRIOR LAW**

None

## **NEW PROVISION**

Allows the department to use state vehicles that do not have “official” registration and state decals on the doors.

## **SECTION AMENDED**

Section 1 of House File 266 amends section 321.19, Code of Iowa 1997.

## **EFFECTIVE DATE**

July 1, 1997

97 HF 266-A

# FRANCHISE TAX APPROPRIATION

## PRIOR LAW

The franchise tax appropriation of 8.8 million dollars was provided for in sec. 422.65, Code of Iowa 1997.

## NEW PROVISION

A new section 405A.10 contains the franchise tax appropriation and further provides the allocation will be made pursuant to section 422.65.

## SECTIONS AMENDED

Section 3 of House File 266 added a new section 405A.10, section 21 amended section 422.65, Code of Iowa 1977.

## EFFECTIVE DATE

July 1, 1997

97 HF 266-B



# INDEPENDENT CONTRACTORS

## PRIOR LAW

The director could employ certified public accountants, engineers and technical assistants and other employees necessary to protect the interest of the state.

## NEW PROVISIONS

Adds a provision that the director can also employ “independent contractors.”

## SECTION AMENDED

Section 4 of House File 266 amends section 421.4, Code of Iowa 1997.

## EFFECTIVE DATE

July 1, 1997.

97 HF 266-C

# OFFSET PROGRAM

## PRIOR LAW

To qualify as a debt owed to the child support recovery unit, foster care recovery unit, investigation division of the department of inspections and appeals, college student aid commission and district court that was eligible for setoff, the liability must have been \$50 or more. In addition, under the statutes governing the offset program, the definition of “state agency” is limited to a board, commission, department or other administrative office or unit of the state. These statutes also defined the term “department” as the department of revenue and finance.

## NEW PROVISION

The statutes governing the offset program were amended to eliminate the standard across-the board \$50 minimum for a debt to qualify for setoff. Under the new provisions, the minimum debt to qualify for setoff will be set by rule for each type of debt set forth above. The amendment to these statutory provisions also provides expanded definitions for the terms “state agency” and “department”. The term “state agency” was expanded to include any other state entity reported in the Iowa Comprehensive Annual Financial Report. The term “department” was expanded to include any other state agency that maintains a separate accounting system and elects to establish a debt collection setoff procedure for collection of debts owed to the state or its agencies.

## SECTION AMENDED

Iowa Code section 421.17

## EFFECTIVE DATE

July 1, 1997

97 HF 266-D

# PERFORMANCE BASED PROCUREMENT

## PRIOR LAW

None

## NEW PROVISIONS

To develop, modify or contract with vendors to create or administer systems or programs which identify nonfilers of returns or nonpayers of taxes administered by the department.

The cost for the program will be paid from taxes, penalties, interest or fees actually collected.

Vendors entering into a contract with the department are subject to the requirements and penalties of confidentiality laws of the state.

## SECTION AMENDED

Section 6 of House File 266 amended section 421.17, Code of Iowa 1997 by adding a new subsection 22A.

## EFFECTIVE DATE

Upon enactment, May 19, 1997.

97 HF 266-E

# UNCONSTITUTIONALLY WITHHELD TAX BENEFITS

## PRIOR LAW

Nothing specific as to tax benefits unconstitutionally withheld. There were general provisions allowing application for refund of taxes which were paid as a result of “mistake” or which were paid but not “due.”

## NEW PROVISION

If a provision of the Code grants a tax benefit to some taxpayers and an Iowa attorney general’s opinion or a decision of a court of competent jurisdiction states that this tax benefit is unconstitutionally withheld from other taxpayers, the tax benefit shall be granted to the other taxpayers as if the provision of the Code unconstitutionally withholding the benefit did not exist.

## SECTION AMENDED

Section 10 of House File 266 amends chapter 421 of the Code by adding a new section 421.61.

## EFFECTIVE DATE

July 1, 1997.

97 HF 266-F

# **RESIDENT SHAREHOLDER OF S CORPORATION ANTI- CHURNING PROVISION**

## **PRIOR LAW**

None

## **NEW PROVISIONS**

If a resident shareholder in an S corporation elects to apportion income in a year and in a later year elects not to apportion income then the shareholder can not reelect to apportion income for the three tax years immediately following the first tax year in which the shareholder elected not to apportion income.

## **SECTION AMENDED**

Section 11 of House File 266 amends section 422.5, subsection 1, paragraph j, subparagraph (2), and section 49 provides an effective date.

## **EFFECTIVE DATE**

Effective January 1, 1997 for tax years beginning on or after that date.

97 HF 266-G

# **PARTNERSHIPS TAXED AS CORPORATIONS**

## **PRIOR LAW**

Publicly traded partnerships were taxed as corporations, if they were taxed under the Internal Revenue Code as corporations.

## **NEW PROVISIONS**

Any partnership that is taxed as a corporation under the Internal Revenue Code will be taxed as a corporation for Iowa tax purposes.

## **SECTION AMENDED**

Section 13 of House File 266 amends section 422.32, subsection 4 and section 49 establishes a retroactive effective date.

## **EFFECTIVE DATE**

Retroactive to January 1, 1997 for tax years beginning on or after that date.

97 HF 266-H

# **EXEMPT AGRICULTURAL PRODUCTION INCLUDES AQUACULTURE**

## **PRIOR LAW**

The sale or use of most chemicals, fuel, machinery, and equipment used in agricultural production was exempt from tax. However, exempt “agricultural production” did not include aquaculture, e.g. farm raising of catfish.

## **NEW PROVISION**

Aquaculture is now part of exempt agricultural production.

## **SECTION AMENDED**

Section 14 of House File 266 amends Code section 422.42, subsections 1 and 14; section 18 amends Code section 422.45, subsection 39, paragraphs a and c; section 19 amends section 422.47, subsection 4, paragraph f.

## **EFFECTIVE DATE**

July 1, 1997.

97 HF 266-I

## **SALES OF PREPAID AUTHORIZATION NUMBERS AND CALLING CARDS ARE TAXABLE**

### **PRIOR LAW**

The Code did not state explicitly that sales of prepaid telephone calling cards and prepaid authorization numbers were taxable either as sales of tangible personal property or as the furnishing of a taxable communication service.

### **NEW PROVISION**

Sales of prepaid calling cards and prepaid authorization numbers are declared to be sales of tangible personal property, and a five percent tax is imposed on the gross receipts from those sales.

### **SECTION AMENDED**

Section 15 of House File 266 amends Code section 422.43 by adding a new subsection 12.

### **EFFECTIVE DATE**

July 1, 1997.

97 HF 266-J



## **NON-PROFIT, PRIVATE MUSEUMS**

### **PRIOR LAW**

A nonprofit, private museum was entitled to a refund of the sales, service or use tax upon the gross receipts of all goods, wares, or merchandise, or from services rendered, furnished or performed, to a contractor, used in the fulfillment of a written contract with the non-profit private museums regardless of the museum's location.

### **NEW PROVISION**

The new provision provides that only nonprofit, private museums located in this state are eligible for the refund of taxes paid by a contractor used in the fulfillment of a written contract.

### **SECTIONS AMENDED**

Section 17 of House File 266 amended section 422.45, subsection 18, Code 1997.

### **EFFECTIVE DATE**

July 1, 1997.

97 HF 266-K

# **LIBERALIZED PURCHASE FOR LEASE EXEMPTION**

## **PRIOR LAW**

Gross receipts from sales of tangible personal property (other than vehicles subject to registration) to persons regularly engaged in the business of leasing were exempt from tax if the property were sold for subsequent lease of more than one year.

## **NEW PROVISION**

The period of the subsequent lease is reduced to more than five months.

## **SECTION AMENDED**

Section 17 of House File 266 amends Code section 422.45, subsection 18.

## **EFFECTIVE DATE**

Upon enactment, May 19, 1997.

97 HF 266-L

# **DIRECT PAYMENT OF TAX TO THE DEPARTMENT BY PURCHASERS AND USERS**

## **PRIOR LAW**

No purchaser, user or consumer had the option of paying state or local option sales or retailer's use tax directly to the department rather than to a retailer. If the department had no power to require a retailer to collect Iowa use tax, a consumer was obligated to pay that tax directly to the department.

## **NEW PROVISION**

Upon application to the director and after issuance of a direct pay permit, purchasers, users, and consumers who accrue a tax liability of more than four thousand dollars in state sales and use tax in a semimonthly period can pay their state and local option sales tax and retailer's use tax directly to the department rather than to a seller. This must be done pursuant to rules adopted by the director. Taxes imposed on certain utility sales, taxes imposed on the use of vehicles subject to registration, and taxes imposed under the motor vehicle lease tax cannot be paid by this method.

## **SECTION AMENDED**

Section 20 of House File 266 amends Code section 422.53 by adding a new subsection 8.

## **EFFECTIVE DATE**

January 1, 1998.

97 HF 266-M

# **SUBPOENA OF TAX RETURNS AND INFORMATION / DEPARTMENT OF PUBLIC SAFETY**

## **PRIOR LAW**

Tax returns and information were deemed confidential and such information could not be divulged unless to limited parties for the purpose of tax administration.

## **NEW PROVISION**

Provides that the department of public safety can gain access to tax returns and records for the limited purposes investigating violation of the statutes governing controlled substances under Iowa Code chapter 124 and money laundering under 706B. To obtain access, a court ordered subpoena must be issued at the request of the attorney general

## **SECTION AMENDED**

Iowa Code section 422.72

## **EFFECTIVE DATE**

July 1, 1997.

97 HF 266-N

## **RETAILER MAINTAINING A PLACE OF BUSINESS / USE TAX**

### **PRIOR LAW**

Required a person acting on behalf of a retailer maintaining a place of business to be an agent of the retailer before the retailer could be subject to Iowa use tax.

### **NEW PROVISION**

Changes the word “agent” to the term “representative.” This change expands the definition and allows an independent contractor acting on behalf of a retailer in Iowa to be sufficient to constitute nexus and subject the retailer to Iowa use tax.

### **SECTION AMENDED**

Iowa Code section 423.1(8)

### **EFFECTIVE DATE**

July 1, 1997.

97 HF 266-O

# MENTAL HEALTH PROPERTY TAX RELIEF FUND

## PRIOR LAW

A property tax relief fund was established under the authority of the department of revenue and finance. The council on human services was required to consult with the department in prescribing forms and adopting rules to administer chapter 426B.

## NEW PROVISIONS

The property tax relief fund is placed under the authority of the department of human services. Responsibility for rule making is also assigned to the department of human services because county claims for payment are filed with that department rather than the department of revenue and finance.

## SECTIONS AMENDED

Section 28 of House File 266 amends section 426B.1, subsection 1, and section 29 amends section 426B.4.

## EFFECTIVE DATE

July 1, 1997.

97 HF 266-P

# **MILITARY SERVICE PROPERTY TAX EXEMPTION**

## **(Family Farm)**

### **PRIOR LAW**

A military service property tax exemption was not allowable on property owned by a corporation. The exemption was allowable only on property owned by an individual.

### **NEW PROVISIONS**

The military exemption is allowable on property owned by a family farm corporation provided the property is occupied by a shareholder of the corporation.

### **SECTIONS AMENDED**

Section 31 of House File 266 amends section 427.5, unnumbered paragraphs 1 and 2.

### **EFFECTIVE DATE**

July 1, 1997.

97 HF 266-Q

# **MACHINERY & EQUIPMENT PROPERTY TAX REPLACEMENT CLAIMS**

## **PRIOR LAW**

County auditors were required to file machinery & equipment property tax replacement claims with the department by July 1 of each year and the department was required to notify the auditors by August 1 of each year of the replacement percentage if the appropriation was insufficient to pay all claims.

## **NEW PROVISIONS**

County auditors are given until September 1 to file machinery & equipment property tax replacement claims with the department and the department is given until September 30 to notify the auditors of the percentage replacement if the appropriation is insufficient to pay all claims.

## **SECTIONS AMENDED**

Section 32 of House File 266 amends section 427B.19, subsection 3, unnumbered paragraph 1; section 33 amends section 427B.19, subsection 4, and section 34 amends section 427B.19A, subsection 2.

## **EFFECTIVE DATE**

July 1, 1997.

97 HF 266-R



# ASSESSOR CONTINUING EDUCATION

## **PRIOR LAW**

If an assessor was appointed to the position of assessor to complete an unexpired term in another assessment jurisdiction, the assessor was required to complete a prorated number of continuing education credit hours based on the time remaining in the term of the assessor being replaced.

## **NEW PROVISIONS**

An assessor may carry forward to another assessment jurisdiction any credit hours accumulated in the previous position in excess of the number required to be current.

## **SECTIONS AMENDED**

Section 37 of House File 266 amends section 441.8, unnumbered paragraphs 6 and 7.

## **EFFECTIVE DATE**

July 1, 1997.

97 HF 266-S

## **DEPUTY ASSESSOR CONTINUING EDUCATION**

### **PRIOR LAW**

A deputy assessor could be removed from the position of deputy for failing to meet continuing education requirements but then be immediately reappointed to the position without obtaining the additional credit hours needed to be current.

### **NEW PROVISIONS**

A deputy assessor must make up the number of continuing education credit hours necessary to be considered up-to-date before being reappointed to that position.

### **SECTIONS AMENDED**

Section 38 of House File 266 amends section 441.11.

### **EFFECTIVE DATE**

July 1, 1997.

97 HF 266-T

# **REFUNDS FOR UNDYED SPECIAL FUEL USED IN WATERCRAFT**

## **PRIOR LAW**

The tax paid on undyed special fuel used in watercraft was not subject to refund.

## **NEW PROVISIONS**

A refund is allowable for the tax paid on undyed special fuel used in watercraft.

## **SECTIONS AMENDED**

Section 42 of House File 266 amends section 452A.17, subsection 1, paragraph a, by adding a new subparagraph 9; section 43 amends section 452A.17, subsection 1, paragraph b, subparagraphs 4 and 5 and section 53 provides an effective date for sections 42 and 43.

## **EFFECTIVE DATE**

May 19, 1997. Retroactive to July 1, 1996.

97 HF 266-U

## **INTEREST ON MOTOR FUEL TAX REFUNDS**

### **PRIOR LAW**

Motor fuel tax refunds began accruing interest the first day of the third calendar month following payment of the tax or filing of the return.

### **NEW PROVISIONS**

Motor fuel tax refunds begin accruing interest the first day of the second calendar month following the date the claim for refund is received by the department.

### **SECTIONS AMENDED**

Section 44 of House File 266 amends section 452A.65, unnumbered paragraph 1.

### **EFFECTIVE DATE**

July 1, 1997.

97 HF 266-V

# NON-PRO RATA DIVISION OF TRUST

## PRIOR LAW

Only trust instruments that provided for a non-pro rata division of assets could be divided in this manner. Newer trust instruments contained this provision. However, older instruments did not. Consequently, older trusts could not be divided in a non-pro rata manner without the division of assets being deemed a sale with the recognition of a taxable gain.

## NEW PROVISION

Provides for the property of a trust to be distributed to two or more trusts in a non-pro rata manner without the effect of the distribution being deemed a sales with the recognition of a taxable gain, whether the trust instrument provides for such a division or not. As a result, all trusts have access to this type of division based on statute regardless of the trust instruments provisions.

## SECTION AMENDED

Iowa Code sections 633.699(7) and 633.703A

## EFFECTIVE DATE

July 1, 1997.

97 HF 266-W

## **RACETRACKS LOCALLY ASSESSED**

### **PRIOR LAW**

House File 212, enacted in 1997, required the department of revenue and finance to assess for property taxation purposes racetracks licensed by the state gaming and racing commission.

### **NEW PROVISIONS**

Racetracks licensed by the state gaming and racing commission are to be assessed by the local assessor.

### **SECTIONS AMENDED**

Section 47 of House File 266 amends section 99D.14, subsection 6, as amended by 1997 Iowa Acts, House File 212, section 2.

### **EFFECTIVE DATE**

July 1, 1997.

97 HF 266-X

# **APPORTIONMENT FOR RESIDENT SHAREHOLDERS OF S CORPORATIONS**

## **PRIOR LAW**

Only resident shareholders of value-added S corporations doing business within and without the state were allowed to use apportionment to determine Iowa taxable income.

## **NEW PROVISIONS**

Resident shareholders of any S corporation doing business within and without the state are allowed to apportion income to determine Iowa taxable income.

## **SECTION AMENDED**

Section 1 of House File 306 strikes subsection 18 of section 422.4, section 3 amends section 422.5, subsection 1, paragraph j, subparagraph (2), and section 7 provides an effective date.

## **EFFECTIVE DATE**

Effective January 1, 1998 for tax years beginning on or after that date.

97 HF 306-A

# **S CORPORATION APPORTIONMENT REFUND**

## **PRIOR LAW**

Resident shareholders of value-added S corporations doing business within and without Iowa in order to take advantage of the apportionment provisions were required to file an income tax return and pay the tax as though apportionment was not used and then claim a refund based on apportionment of income.

## **NEW PROVISIONS**

Resident shareholders of valued-added S corporations doing business within and without Iowa may take advantage of the apportionment provisions by filing a tax return utilizing apportionment to compute Iowa taxable income. No refund claim is required and the five million dollar cap on refunds was removed.

## **SECTION AMENDED**

Section 2 of House File 306 amends section 422.5, subsection 1, paragraph j, subparagraph (2) by striking the subparagraph divisions (a )and (c) and section provides a retroactive effective date..

## **EFFECTIVE DATE**

Retroactive to January 1, 1997 for tax years beginning on or after that date.

97 HF 306-B



# **NEXUS LIMITATION FOREIGN CORPORATIONS**

## **PRIOR LAW**

None

## **NEW PROVISIONS**

A foreign corporation will not have nexus in Iowa if it only carries on the following activities in Iowa, training employees, or educating employees, or using facilities in Iowa for this purpose.

## **SECTIONS AMENDED**

Amends section 422.34A by adding new subsection 2.

## **EFFECTIVE DATE**

Retroactive to January 1, 1997 for tax years beginning on or after that date.

97 HF 354

# **EXEMPTION OF ACTIVE DUTY PAY OF NATIONAL GUARD PERSONNEL AND MILITARY RESERVE PERSONNEL RELATED TO PEACEKEEPING IN BOSNIA**

## **PRIOR LAW**

None

## **NEW PROVISION**

Provides a total income tax exemption for active duty military pay of persons in the national guard or the armed forces military reserve who served overseas pursuant to military orders related to peacekeeping in the Bosnia-Herzegovina area. To qualify for the income tax exemption, the individual receiving the active duty military pay must have served overseas due to orders related to peacekeeping in Bosnia-Herzegovina but did not have to serve in the Bosnia-Herzegovina area.

## **SECTION AMENDED**

Section 1 of House File 355 adds subsection 25 to code section 422.7.

## **EFFECTIVE DATE**

Retroactive to November 21, 1995, for active duty pay received on or after that date.

97 HF 355

# TEN PERCENT REDUCTION IN INCOME TAX RATES

## PRIOR LAW

The prior individual income tax rates were enacted in 1987. Those rates ranged from a minimum rate of four-tenths of one percent on the first thousand dollars of taxable income to a maximum rate of nine and ninety-eight hundredths percent on all taxable income that exceeded forty-five thousand dollars. The tax rate for the Iowa alternative minimum tax was 75% of the maximum regular income tax rate of 9.98%, or was 7.5%

## NEW PROVISION

The tax rates for individual income tax are reduced by ten percent. These rates range from a minimum rate of thirty-six hundredths of one percent on the first thousand dollars of taxable income to a maximum rate of eight and ninety-eight hundredths percent on all taxable income exceeding forty-five thousand dollars. The tax rate for the Iowa alternative minimum tax was reduced to 6.7%.

## SECTION AMENDED

Section 1 of House File 388 amends section 422.5, subsection 1, paragraphs a through i.

## EFFECTIVE DATE

January 1, 1998, for tax years beginning on or after that date.

97 HF 388

# **MACHINERY & EQUIPMENT PROPERTY TAX PHASE-OUT / EXEMPTION**

## **PRIOR LAW**

In 1995, legislation was enacted providing for the phase-out and exemption of the property tax on computers and industrial machinery & equipment acquired after 1981.

## **NEW PROVISIONS**

The phase-out of the property tax applies to computers and industrial machinery & equipment acquired prior to 1982 making the phase-out applicable regardless of the acquisition date of the property.

## **SECTIONS AMENDED**

Section 1 of House File 495 amends section 427B.17, subsection 1, by striking the subsection and inserting a new subsection and sections 2 and 3 provide effective dates.

## **EFFECTIVE DATE**

July 1, 1997. Applies to assessments made on or after January 1, 1998 and claims for reimbursement payable on or after July 1, 1997.

97 HF 495

## **DELINQUENT / SUSPENDED PROPERTY TAXES**

### **PRIOR LAW**

Property taxes became delinquent on October 1 or April 1 if not paid prior to those dates.

### **NEW PROVISIONS**

The county board of supervisors is required to send to the department of human services the names of persons receiving a property tax suspension and the department is required to verify the person's eligibility for property tax suspension back to the board of supervisors.

Taxes become delinquent on October 1 or April 1 unless payment is received by the county treasurer on or before the last business day of the month preceding October 1 or April 1 or, if mailed, the payment envelope bears a postmark date preceding October 1 or April 1.

### **SECTIONS AMENDED**

Section 14 of House File 645 amends section 427.9 and section 17 adds a new unnumbered paragraph to section 445.37.

### **EFFECTIVE DATE**

July 1, 1997.

97 HF 645

## **D. O. T./ CONSTRUCTION CONTRACTORS— NO NEED TO PROVIDE DOCUMENTS SUPPORTING REFUND CLAIMS**

### **PRIOR LAW**

A contractor which had performed a construction contract for a nonprofit educational institution, museum or any number of instrumentalities or divisions of federal, state, county, or municipal government was obligated to forward to its principal a record, sworn to under oath, of Iowa sales or use tax paid by the contractor in the performance of the contract. This record was the basis for any claim for refund of tax paid by the contractor which was filed by the institution, museum, or government. A claim could be filed for the refund of local option tax paid as well as for the refund of state sales tax paid.

### **NEW PROVISION**

With reference only to transportation construction contracts let by the Iowa department of transportation, the contractor need not forward to the department any record of Iowa sales or use tax paid in the performance of the construction contract. Instead, the department of transportation shall file a claim for refund based on a formula consisting of two factors: 1) the quantity of taxable goods and services provided under the contract, and 2) the amount of state tax paid based on the estimated cost of the goods and services. Local option tax paid by the contractor is not refundable.

### **SECTION AMENDED**

House File 702, section 57, amends section 422.45, Code 1997, by adding a new subsection 7A.

### **EFFECTIVE DATE**

July 1, 1997, for claims for refund filed on or after that date.

97 HF 704

# IOWA CAPITAL INVESTMENT TAX CREDIT

## PRIOR LAW

None

## NEW PROVISIONS

A nonrefundable tax credit may be taken against the individual or corporation income tax for the amount of an investment in the Iowa capital investment board upon the termination or insolvency of the board. The credit may be taken for the year in which the board terminates or becomes insolvent and for the succeeding three years, it may not be carried back to a year prior to the year of termination or insolvency. The maximum amount of tax credits issued may not exceed thirty million dollars.

The taxpayer that makes the original investment in the board may during the year of termination or insolvency transfer any unused tax credit to another taxpayer who may use the credit in any year that the original investor could have taken the credit.

An individual may claim the individual's pro rata share of the credit of a partnership, limited liability company, subchapter S corporation, estate, or trust.

## SECTION AMENDED

Section 3 of the Act creates section 15E.183.

## EFFECTIVE DATE

Upon enactment, May 14, 1997.

97 HF 722

# ENTERPRISE ZONES

## PRIOR LAW

None

## NEW PROVISIONS

A county or a city may designate an area as an enterprise zone. An enterprise zone designation shall not last more than ten years, but the incentives may continue on beyond the expiration of the zone.

An eligible business must meet all of the following:

- a. Is not a retail business.
- b. Pay at least 80 percent of the cost of a standard medical and dental insurance plan for all full time employees.
- c. Pay an average wage that is at or greater than ninety percent of the lesser of the average county wage or the average regional wage. However the wage paid shall not be less than \$7.50 per hour.
- d. Create at least ten full-time positions and maintain them for at least ten years.
- e. Make a one-time capital investment of at least \$500,000.

The following incentives are available:

- a. New jobs credit from withholding as provided in Code §15.331
- b. Sales, services, and use tax refund as provided in Code §15.331A
- c. Investment tax credit as provided in Code §15.333
- d. Research activities credit as provided in Code §15.335.

## SECTION AMENDED

The Act creates new Code section 15E181 through section 15E186.

## EFFECTIVE DATE

Effective July 1, 1997.

97 HF 724-A



# ENTERPRISE ZONE PROPERTY TAX EXEMPTION

## PRIOR LAW

None

## NEW PROVISIONS

Cities and counties may exempt from taxation all or a part of the value added by improvements to property of eligible businesses used in designated economic development enterprise zones. The department of economic development must approve establishment of the zones and eligibility of businesses within the zones to receive tax benefits. The exemption may be allowed for up to 10 years.

## SECTIONS AMENDED

Section 6 of House File 724 amends chapter 15E by adding a new section 186, subsection 5.

## EFFECTIVE DATE

July 1, 1997. Effective for assessment years beginning after the year in which the zone is established.

97 HF 724-B

# **LIVESTOCK PRODUCTION CREDIT REFUND REVISIONS— COW-CALF CREDIT CHANGES**

## **PRIOR LAW**

Pursuant to provisions enacted in Chapter 1197 of the Acts of the 1996 General Assembly, livestock production credit refunds were to be available for tax years beginning in 1997 to qualified individual and corporate taxpayers who were involved in the ownership of certain hog operations, certain poultry operations, certain sheep operations and certain beef cattle operations, including dairy operations. The livestock production credit refunds were to be available only to taxpayers that had total net worths of less than one million dollars and received more than 50% of their gross incomes from farming and ranching activities.

## **NEW PROVISION**

As was the case for tax years beginning in 1996, the livestock production credit refunds will be allowed for tax years beginning on and after January 1, 1997 only to qualified corporate and individual taxpayers who operate cow-calf beef operations. A qualified taxpayer is a corporation or an individual with a federal taxable income of \$99,600 or less. This qualification replaces the criteria that were applicable for livestock production refund claims for tax years beginning in 1996. For tax years beginning after 1997, the federal taxable amount of \$99,600 will be increased or indexed for inflation. A definition is provided to clarify what types of beef cattle are included in a cow-calf operation. These cattle are: mature beef cows bred or for breeding, bred yearling heifers and breeding bulls. Two million dollars is appropriated annually from the general fund for tax years beginning on or after January 1, 1997 to fund refund claims for the livestock production tax credit.

## **SECTION AMENDED**

Section 1 of House File 726 amends section 422.120 by adding new section 2A and by striking paragraph b of subsection 1, of section 422.120 and inserting in lieu of that paragraph a new paragraph b.

## **EFFECTIVE DATE**

On or after January 1, 1997, for tax years beginning on or after that date.

97 HF 726-A

# PROPERTY TAX CREDIT AND EXEMPTION FUNDING

## PRIOR LAW

Beginning with the 1992-1993 fiscal year, state reimbursements to counties for the homestead, military and elderly and disabled property tax credits were frozen at the 1991-1992 levels. The result was that counties were reimbursed by the state for these credits allowed to taxpayers by only the percentage of the amount claimed that was covered by the appropriation. The taxpayer received the full amount of the credit claimed but the county was shorted when the amount of claims exceeded the appropriation.

Late claims for the homestead and military property tax credits could be filed after the July 1 deadline through December 31 of the following year.

## NEW PROVISIONS

Beginning with state reimbursements made on or after July 1, 1997, the freeze on these tax credits is repealed so that they are to be fully funded. However, if the state does not fully fund the credits, the taxpayer is to receive only that portion of the credit which is funded. The department of revenue and finance is required to estimate the percent of credit to be allowed and notify the county treasurer by June 15. The excess reimbursement received in any fiscal year beginning July 1, 1997 and ending June 30, 2002 over the amount received in the 1996-1997 fiscal year is required to be used for property tax relief, infrastructure or expenses incurred in providing property tax statements to the taxpayer.

The same funding/credit application procedure is to be followed for any other property tax credit or exemption enacted in 1997 or thereafter.

The extension of time for filing late claims for the homestead and military tax credits is repealed.

The county treasurer is required to send the taxpayer a property tax statement starting with tax statements issued for the fiscal year beginning July 1, 1998.

A tax statement study committee is established to review the impact of the tax statement requirement. A report is due to the general assembly in January 1998.

## SECTIONS AMENDED

Section 4 of House File 726 creates a new section 25B.7; section 5 amends section 8.59; section 6 amends section 425.2, unnumbered paragraphs 2 and 6; section 7 amends section 425.39, subsection 1; section 8 amends section 425.39, subsection 2, by striking the subsection; section 9 amends section 427.5, unnumbered paragraph 5, by striking the unnumbered paragraph; section 10 provides effective dates for sections 5, 7 and 8; section 22 amends section 445.5. Section 23 creates a new uncoded section and section 24 provides an effective date for section 22.

## EFFECTIVE DATE

July 1, 1997. The full funding of the homestead, military and elderly and disabled property tax credits is applicable to reimbursements payable on or after July 1, 1997. The property tax statement requirement is applicable to tax statements issued for taxes payable in fiscal years beginning on or after July 1, 1998.

# LOCAL OPTION TAX

## PRIOR LAW

The director was required to send estimates of local option collections to the cities or counties on a quarterly basis. In addition, the director was required to remit ninety percent of the local option collection to the cities and counties on a quarterly basis.

## NEW PROVISION

This amendment provides that local option sales and service taxes are to be remitted to the department in the same frequency as required for retail sales tax. Local option tax is not to be included in the computation of state retail sales tax to determine the frequency of remitting. Instead, the computation of state sales tax should be used to determine the frequency local option is to be remitted. This amendment also increases the amount and frequency of estimated local option tax receipts remitted by the department to the counties and cities to ninety-five percent on a monthly basis.

## SECTION AMENDED

Iowa Code sections 422B.9 and 422B.10.

## EFFECTIVE DATE

For periods after July 1, 1997.

97 HF 729

# RESIDENTIAL DEVELOPMENT PROPERTY TAX EXEMPTION

## PRIOR LAW

Cities and counties could elect to exempt from property tax all or a portion of the value added by improvements made to property in areas that were determined to be in need of rehabilitation, conservation, redevelopment or economic development. The amount of value to be exempted and the length of time over which the exemption could be allowed was dependent upon the schedule selected by the city or county. The exemption was available on all classes of property.

## NEW PROVISIONS

A city or county may also elect to exempt from property tax the first \$75,000 of value added by improvements made to property in areas determined to be in need of residential development. The exemption is for 5 years and limited to property classified as residential property.

## SECTIONS AMENDED

Section 10 of House File 732 amends section 404.1 by adding a new subsection 5 and section 11 adds a new section 404.3A.

## EFFECTIVE DATE

July 1, 1997. Applicable to improvements made to property in designated areas on or after July 1, 1997.

97 HF 732

# **SALES AND USE TAX EXEMPTION FOR AGRICULTURAL ADJUVANTS, SURFACTANTS AND CERTAIN OTHER CHEMICALS**

## **PRIOR LAW**

Sales of certain products (fertilizer, limestone, herbicide, pesticide, and insecticide) for use in agricultural production for market were exempt from tax but not sales of other products which increased the effectiveness of fertilizer, limestone, herbicide, pesticide, and insecticide.

## **NEW PROVISION**

Sales of adjuvants, surfactants and certain other products which directly enhance the effects of fertilizer, limestone, herbicide, pesticide, and insecticide used in agricultural production are exempt from tax.

## **SECTION AMENDED**

Senate File 30, section 1, amends section 422.42, subsection 14, Code, 1997.

## **Effective Date**

Effective upon enactment, February 11, 1997, retroactive to April 1, 1990 for sales or uses occurring on or after that date. Refunds resulting from the retroactivity shall not exceed \$25,000 in the aggregate and shall not be allowed unless refund claims are filed prior to October 1, 1997.

97 SF 30

# **ELIMINATION OF INHERITANCE TAX ON SHARES RECEIVED BY CERTAIN INDIVIDUALS**

## **PRIOR LAW**

Only a surviving spouse was exempt from inheritance tax on property received from a decedent's estate. Certain other classes of heirs received limited or no exemption from tax based on their relationship to the decedent.

## **NEW PROVISION**

In addition to the exemption from inheritance tax for a surviving spouse, this amendment also eliminates inheritance tax on property passing to parents, grandparents, great-grandparents, and other lineal ascendants, children including legally adopted children and biological children entitled to inherit under the laws of this state, stepchildren, and grandchildren, great-grandchildren, and other lineal descendants of the decedent.

## **SECTION AMENDED**

Senate File 35 amends Iowa Code sections 450.7(1), 450.9, 450.10(1), 450.10(2), 450.10(3), 450.10(6), 450.10(7).

## **EFFECTIVE DATE**

Estates in which the decedent died on or after July 1, 1997.

97 SF 35

# PROPERTY TAX ON LIFE ESTATES

## PRIOR LAW

Iowa Code section 427.1, subsection 2, exempts from taxation property owned by the state or a political subdivision of the state if the property is devoted to a public purpose and not used for profit-making purposes.

## NEW PROVISIONS

Property donated to the state or a political subdivision of the state on or after July 1, 1992, and for which the donor retains a life estate interest in the property, is subject to taxation until termination of the life estate. No taxes will be required to be paid nor any refunds required to be made for taxes payable in fiscal years beginning July 1, 1992 and ending June 30, 1997.

## SECTIONS AMENDED

Section 1 of Senate File 83 adds a new section 427.2A.

## EFFECTIVE DATE

July 1, 1997. Retroactive to assessment years beginning on or after January 1, 1996.

97 SF 83



## **UPDATE OF REFERENCES TO THE INTERNAL REVENUE CODE**

### **PRIOR LAW**

The major reference to the internal revenue code was amended up through March 20, 1996 to include into Iowa income tax law many of the provisions of Pub. L. No. 104-117 enacted in March of 1996. This Act provided certain tax benefits to members of the armed forces of the United States that were performing peacekeeping activities in the Bosnia area. However, the references to the internal revenue code in the provisions for the research activities credit were updated to January 1, 1996.

### **NEW PROVISION**

The major reference to the internal revenue code and the references to the internal revenue code in the statutes for the research activities credit are updated through January 1, 1997. The individual income tax and corporate income tax statutes for the jobs tax credit are revised to the work opportunity credit which is the new federal terminology for the credit. See separate write-up for the mortgage interest credit and for the major federal provisions enacted in 1996 that are adopted due to enactment of S. F. 129.

### **SECTION AMENDED**

Section 15.335, unnumbered paragraph 1 and section 15A.9, subsection 8, unnumbered paragraph 2 are amended in sections 1 and 2 of Senate File 129. Section 3 of the Act amends section 422.3, subsection 4. Section 4 of S. F. 129 revises section 422.7, subsection 8 and section 8 revise section 422.35, subsection 5. Sections 6 and 7 amend section 422.10, unnumbered paragraph 1 and section 422.33, subsection 5, unnumbered paragraph 1.

### **EFFECTIVE DATE**

The Act is retroactively applicable to January 1, 1996, for tax years beginning on or after that date.

97 SF 129-A

# MORTGAGE INTEREST CREDIT DEDUCTION

## PRIOR LAW

None

## NEW PROVISION

For federal income tax purposes, taxpayers that qualify for the mortgage interest tax credit have to reduce their itemized deduction for mortgage interest paid in the tax year by the amount of the mortgage interest credit. This reduced mortgage interest deduction was the deduction that was allowed on the Iowa return. On the basis of this legislation, taxpayers itemizing deductions on their Iowa returns will be allowed a deduction for all the mortgage interest paid in the tax year and not just the mortgage interest that was deducted on the federal schedule A.

## SECTION AMENDED

Section 5 of Senate File 129 amends section 422.9, subsection 2, by adding new paragraph f.

## EFFECTIVE DATE

Retroactive to January 1, 1996 for tax years beginning on or after that date. Because this change is retroactive to January 1, 1996, this change will apply to 1996 Iowa returns. Thus, we should accept any refund claims on amended 1996 Iowa returns where taxpayers with the mortgage interest credit are claiming a deduction on schedule A for all the mortgage interest paid in 1996.

97 SF 129-B

## **MAJOR FEDERAL PROVISIONS ADOPTED FOR IOWA INCOME TAX PURPOSES DUE TO ENACTMENT OF SENATE FILE 129**

Three major federal tax acts were enacted in August of 1996 that included provisions which impact Iowa income tax due to enactment of Senate File 129. The following are brief summaries of some of the major provisions of the federal legislation. These provisions are effective on January 1, 1997 for the most part. The effective dates are specified below for those items that apply on dates other than January 1, 1997.

- Individual Retirement Accounts - In situations where only one spouse has earned income, that individual can contribute up to \$2,000 per year to an IRA account of the nonworking spouse and up to \$2,000 per year to an IRA account of the individual. Under prior law only \$2,250 could have been contributed to the IRA accounts of the spouses. The aggregate contributions to IRA's for both spouses can not exceed the combined compensation of the couple for the tax year. Whether or not the contribution to the spousal IRA is deductible depends on whether either spouse is an active participant in an employer's qualified plan, SEP, § 403 annuity, Simple plan and the amount, if any, by which the couple's AGI exceeds \$40,000.
- Punitive damage awards - Damage awards, including awards for emotional distress are fully taxable except for damage awards for physical injury or physical illness. The new criteria for taxation of damage awards applies to awards received on or after August 21, 1996. In addition, there is generally no exclusion for punitive damages, regardless of what those damages are received for. There is an exception for certain punitive damages received for wrongful death where state law in effect on Sept. 13, 1995 provides that the only damages that may be awarded in a wrongful death action are punitive damages.
- Provisions relating to S corporations - A number of provisions were passed to enable corporations to elect S corporation status. The maximum number of shareholders was increased to 75 from 35. Financial organizations, including banks can be owned by S corporations for the first time.
- Employee education assistance exclusion - The up to \$5,250 per employee educational assistance exclusion for qualified educational programs is retroactively reinstated for tax years beginning after December 1994. The exclusion expires for courses beginning after June 30, 1997 and to expenditures for graduate courses beginning after June 30, 1996. Taxpayers who had employee education benefits in 1995 can file amended 1995 returns to exclude the education assistance benefits that were reported on the original IA 1040's for that tax year.
- Long-term care insurance premiums - Health insurance premiums for long-term nursing care coverage qualify for the federal itemized deduction for medical care expenses, subject to the floor of 7.5 percent of adjusted gross income, starting in 1997. Thus, health insurance premiums for long-term care will qualify for the Iowa special 100% health insurance deduction on 1997 Iowa returns.
- Medical savings accounts - Medical savings accounts are authorized for self-employed individuals and for employees of certain "small employers" with high deductible health insurance plans. The medical savings accounts are authorized under a four-year test program. Taxpayers who are eligible for the MSA accounts will be able to claim the same deductions on their Iowa returns for contributions to the accounts that they will be able to claim on their federal income tax returns. Taxpayers with the accounts will

be able to use funds in the accounts to pay any legitimate medical expenses. Distributions from the MSA accounts that aren't used for medical expenses are included in income for both federal and Iowa income tax purposes.

- Increase in capital investments that may be expensed - The \$17,500 annual cap on the amount of depreciable property a small business can expense is increased to \$18,000 for 1997 and gradually raised in steps to a final annual cap of \$25,000 for tax years beginning after 2002.

97 SF 129-C

# MOTOR VEHICLE LEASE TAX / CORRECTIVE LEGISLATION

## PRIOR LAW

A use tax is imposed on leased vehicles used in Iowa that have a gross vehicle weight rating of less than 16,000 pounds and are leased for a period of twelve months or more. This tax is imposed on leases entered into on or after January 1, 1997. Prior to the effective date of the new lease tax law, it was discovered that corrective legislation was necessary to improve the collection and administration of the tax. As a result, corrective legislation was submitted and passed. The first area under the current law that was in need of correction concerns an exemption granted to the owner of a leased vehicle under Iowa Code section 423.4(16) from additional use tax as long the vehicle is actually leased for the twelve month qualifying lease period. This exemption was provided despite the fact that the owner of the leased vehicle used the vehicle for a purpose other than for lease upon expiration of a twelve month lease period. Another area of concern is the fact that the current law allows that remittance of the lease use tax be made by the owner of the vehicle to only the county treasurers or department of transportation. In addition, this Code section also excludes only a manufacturer's rebate from the computation of lease price. As a result, all costs paid by a lessee to obtain the leased vehicle, including the tax, was to be included in the taxable lease price of the vehicle. Finally, the laws governing the motor vehicle lease tax did not allow for a refund of the use tax previously paid if a lease was terminated prior to the expiration of the designated term in the lease.

## NEW PROVISION

The owner of a leased vehicle may not owe additional use tax on a vehicle as long as the owner does not use the vehicle for a purpose other than for lease. If a lease terminates prior to the expiration of a twelve month lease period, the owner does not owe additional use tax as long as the vehicle is not used for a purpose other than for lease.

If a transaction involving a leased vehicle does not require registration or titling of the vehicle, such as if the owner uses the vehicle for his or her own use or if a lessee exercises an optional lease period, tax on the transaction can be remitted to the department of revenue and finance. Tax shall be remitted to the department of revenue and finance on or before fifteen days from the last day of the month that the tax becomes due.

The computation of lease price now excludes title fees, registration fees, lease tax, federal excise tax, optional service or warranty contracts subject to tax under Iowa Code section 422.43(6), insurance, manufacturer's rebate, refundable deposit and any applicable finance charges on these specified items. If the owner and lessee agree that the lessee will reimburse the owner for the tax imposed under this law, the amount of tax may be reimbursed to the owner either by lump sum or as part of the monthly payments. However, the total amount reimbursed by the lessee to the owner shall not be included in the calculation of the taxable lease price.

If a lease is terminated prior to the termination date in the lease agreement a refund of tax previously paid will be allowed if the vehicle falls under the provisions of "Lemon Law" found in Iowa Code section 322G.4.

## SECTION AMENDED

Senate File 222 amends Iowa Code section 423.4(16) by adding a new unnumbered paragraph and 423.7A(1), (2) and (4).

## EFFECTIVE DATE

For leases entered into on or after July 1, 1997.

# DISPOSITION OF SAFE DEPOSIT BOX CONTENTS

## PRIOR LAW

The law required that a bank or credit union allow a person designated in a court order to be able to open and examine a decedent's safe deposit box. If a court order did not exist, then a bank had to limit such access to the decedent's safe deposit box to a spouse, parent, adult descendant, or person named as executor in a the decedent's will. Any examination had to be done in the presence of an officer of the bank or credit union. Prior statutes also required that an inventory of the contents of the decedent's safe deposit box be performed by the financial institution and reported to the department of revenue and finance before the contents were delivered to the personal representative. In addition, the financial institution which governed the safe deposit box or other security enclosure of the decedent which contained securities or assets payable to named beneficiaries were prohibited from delivering the assets to the named beneficiaries unless the inheritance tax for the asset(s) had been paid. Failure to transfer the asset before the tax was paid or inventory the contents of the safe deposit box before the assets were delivered to the personal representative, subjected the financial institution liable for payment of the inheritance tax on the assets at issue.

## NEW PROVISION

Repeals all the statutes that contain the above obligations. As a result, the limitations and duties set forth above will no longer be imposed.

## SECTION AMENDED

Iowa Code sections 450.86, 524.810 and 533.49A have been repealed

## EFFECTIVE DATE

July 1, 1998.

97 SF 238

# **UNIFORM TRANSFER ON DEATH SECURITY REGISTRATION ACT**

## **PRIOR LAW**

Beneficiaries designated to receive securities upon the death of a decedent received the assets via the probate process.

## **NEW PROVISION**

Adopts a uniform state law that provides owner(s) of securities may register the securities and designate beneficiaries to receive the securities upon death of the owner(s). A registered security may be transferred outside of probate by the issuer or broker to the beneficiaries upon the death of the last surviving owner. This Act provides for a nonprobate transfer without the designation of joint tenancy. When one or more beneficiaries receive a registered security upon death of the owner or last surviving owner, the beneficiaries must account to the personal representative for the security and the beneficiaries may reregister the security in the name or names of the beneficiaries. The department of revenue and finance must receive notification of reregistration of a security. The district court has jurisdiction over actions of accounting against any beneficiary.

## **SECTION AMENDED**

Iowa Code was amended to add the subsection 633.10(5), and the following new sections: 633.800 through 633.811.

## **EFFECTIVE DATE**

July 1, 1997.

97 SF 241

# **REINSTATEMENT OF THE INCOME TAX CHECKOFF FOR DOMESTIC ABUSE SERVICES**

## **PRIOR LAW**

The income tax checkoff for domestic abuse services was shown on Iowa individual income tax returns for the 1991 through 1995 tax years. This checkoff was repealed so it did not appear on the income tax return for the 1996 tax year due to a provision in Iowa Code section 422.12E which limits the number of checkoffs on the tax return in cases where the same three checkoffs have been included on the income tax return for three consecutive years.

## **NEW PROVISION**

The domestic abuse services checkoff is reinstated so it will appear on the 1997 Iowa individual income tax return. Contributions to this checkoff are to be used for the purposes of providing emergency shelter services, support services, and other services to victims of domestic abuse or sexual assault.

## **SECTION AMENDED**

New section 236.15B is added in section 13 of Senate File 542 and the section for the previous domestic abuse checkoff in section 236.15A is repealed in section 14 of this Act.

## **EFFECTIVE DATE**

Section 13 is retroactively applicable on January 1, 1997, for tax years beginning on or after that date. Section 14 is retroactively applicable to January 1, 1996, for tax years beginning on or after that date.

97 SF 542



# **DRIVER'S LICENSE / DEBT COLLECTION PILOT PROJECT**

## **PRIOR LAW**

A pilot project was established in designated counties where the department of transportation could not issue or renew a driver's license and could suspend a driver's license if the applicant or licensee had a delinquent account, charge, fee, loan or other indebtedness owed or being collected by the state, unless the applicant or licensee had made arrangements for the payment of the debt.

## **NEW PROVISION**

The driver's license indebtedness clearance pilot project is reestablished. The Department of Transportation shall determine which counties will participate in the pilot project, however, a county may elect to join the project.

The director of revenue and finance may provide the names, addresses and amount of indebtedness owed or being collected by the state to credit reporting agencies.

## **SECTIONS AMENDED**

Section 1 of Senate File 545 amends section 321. 210B; section 3 amends section 421.17, subsection 14, paragraph i, Code 1997.

## **EFFECTIVE DATE**

Upon enactment, May 19, 1997

97 SF 545

## **BANKS AS S CORPORATIONS**

### **PRIOR LAW**

Financial institutions (banks) were taxed under the Iowa franchise tax and the shareholders were taxed on dividends paid.

### **NEW PROVISIONS**

Financial institutions (banks) are taxed under the Iowa franchise tax and shareholders are taxed on their pro rata share of the financial institution's income on their individual income tax return and a franchise tax credit is allowed against that tax. The tax credit can not exceed the shareholder's pro rata share of the franchise tax paid by the financial institution. The tax credit is computed using the shareholder's marginal tax rate.

### **SECTION AMENDED**

Section of Senate File 553 creates new Code section 422.11, section 2 amends section 422.61, subsection g, and section 3 establishes an effective date.

### **EFFECTIVE DATE**

The Act is retroactive to January 1, 1997 for tax years that begin on or after that date.

97 SF 553